AR01

Hawker Siddeley Canada LTD./1970 Annual Report

Contents

Notice of Annual and Special General Meeting

The Annual and Special General Meeting of Shareholders will be held in the Ontario Room of the Royal York Hotel, Toronto, Ontario, on Friday, May 28th, 1971 at 11:00 a.m., E.D.T. A notice of the meeting, an information circular, and a proxy form for the convenience of those shareholders holding common shares, are enclosed with this report.

Hawker Siddeley Canada Ltd.

Head Office
7 King Street East,
Toronto 1, Ontario

Directors
Sir Arnold Hall, London, England
A.S. Kennedy, London, England
A.S. Pattillo, Q.C., Toronto, Ontario
R.S. Faulkner, Toronto, Ontario
A.A. Bailie, Toronto, Ontario
A.J. Laurence, London, England
A.W. McKenzie, Montreal, Quebec
F.P. Mitchell, Mississauga, Ontario
K.L. Phillips, London, England
J.H. Ready, Islington, Ontario
R.G. Smith, Halifax, Nova Scotia
Colin W. Webster, Montreal, Quebec

Executive Management
Sir Arnold Hall, Chairman
A.S. Kennedy, Vice-Chairman
A.S. Pattillo, Q.C., Vice-Chairman
R.S. Faulkner, President and Chief Executive Officer
A.A. Bailie, Vice-President, Finance, and Treasurer
I.E. Bull, Vice-President and Comptroller
M.E. Davis, Vice-President
A.W. McKenzie, (Chairman and President, Canadian General Transit Company, Limited)
F.P. Mitchell, (President and Chief Executive Officer, Orenda Limited)
J.G. Mitchell, Vice-President (Trenton Works Division)
L.A. Mitten, Vice-President (Canadian Car (Pacific) Division)
J.H. Ready, Vice-President and Secretary

Auditors
Price Waterhouse & Co., Toronto, Ontario

Registrar and Transfer Agent
National Trust Company, Limited, Toronto, Montreal, Winnipeg, and Vancouver

Financial Data in Brief

(in thousands of dollars except per share data)	1970	1969
Consolidated net sales	$182,484	$188,061
Interest expense	4,114	4,251
Depreciation	6,848	6,652
Income from operations before taxes	6,512	6,341
Income taxes	3,063	3,741
Income of subsidiaries attributable to minority shareholders	960	1,368
Provision for loss on Rolls-Royce contracts	154	—
Income before extraordinary item	2,335	1,232
Extraordinary item	500	—
Net income for the year	1,835	1,232
Earnings per share:		
Per preferred share—		
before extraordinary item	16.68	8.80
after extraordinary item	13.11	8.80
Per common share—*		
before extraordinary item	.19	.05
after extraordinary item	.13	.05
Preferred dividends paid	1,006	201
Per preferred share	7.18¾	1.43¾
Capital reduction credited to deficit in 1969 and other items credited to retained earnings in 1970	1,100	29,164
Working capital	31,423	34,466
Capital expenditures	14,360	15,151
Shareholders' equity	79,010	77,081

**after preferred dividend requirements*

To the Shareholders

Your directors submit herewith the audited accounts of Hawker Siddeley Canada Ltd. and its consolidated subsidiaries for the year ended December 31, 1970 and report as follows:

Income

Before Extraordinary Item

On consolidated net sales of $182 million (1969: $188 million) income from operations before taxes and the charge for an extraordinary item was $6,512,373 in 1970 compared with $6,341,247 in 1969. Both offshore drilling rigs constructed by Halifax Shipyards were delivered in 1970 and the results for the year have borne a charge of $2,235,000 in respect of losses on these rigs (1969: $2,350,000).

After providing for income taxes, the interests of minority shareholders and the sum of $153,780 for the Company's share of net losses which may be suffered by Orenda Limited (60% owned) as a result of the failure of Rolls-Royce Limited, income for the year before the charge for an extraordinary item rose to $2,335,538 from $1,232,513 in 1969. After allowing $805,000 in respect of the dividend requirement on the issued and outstanding Preferred shares this is equivalent to 19 cents per share (1969: 5 cents) on the issued and outstanding Common shares of the Company.

Extraordinary Item

The Company and its subsidiaries export a significant portion of their production. Following the decision on May 31, 1970, to abandon the fixed exchange rate for the Canadian dollar it strengthened rapidly and, on balance, to the detriment of the companies' position with customers at that time and for future trading. The adverse impact based upon the companies' net position at May 31, 1970 after taxation relief was $500,433.

Net Income

Net income for the year 1970 of $1,835,105 (1969: $1,232,513) is equivalent to 13 cents per share (1969: 5 cents) on the issued and outstanding Common shares of the Company.

Dividends and Retained Earnings

During 1970 the Company declared and paid five quarters' dividends of $1.43¾ each per share to holders of Preferred shares. On March 16, 1971 a further three quarters' dividends were declared payable March 30, 1971 to holders of Preferred shares of record March 23, 1971, thus reducing the arrears to four quarters as of April 2, 1971. The Board of Directors will continue to review the position and consider further reductions in the arrears.

On December 30, 1970 Dosco Overseas Engineering Limited, a wholly-owned United Kingdom subsidiary of Hawker Industries Limited (99%-owned), acquired full ownership of another British company, Hollybank Engineering Company Limited, which is engaged in a complementary coal mining equipment business. Hollybank's accounts as at December 31, 1970 have been brought into consolidation and the goodwill element of the purchase price has been written off against retained earnings.

Upon reassessment of its obligations under long term supply contracts, Hawker Industries Limited has reduced its provision for Special Costs and Losses. The accumulated cost of settling certain of these obligations has been less than anticipated, permitting restoration of $1,364,681 to retained earnings. It is felt that the remaining provision is adequate to absorb such losses as may occur when all obligations are determined.

Consolidated retained earnings now stand at $5,898,511 compared with $3,969,560 a year ago.

Comment

In accordance with the pattern in 1969, this year yielded improved results in some of our activities whereas others experienced trading problems. The rising value of the Canadian dollar was detrimental but there were benefits from internal improvements in money management. The consolidated net income allocable to minority shareholders of subsidiaries showed a marked reduction over 1969 due to lower profits in Orenda Limited.

The Canadian Car (Thunder Bay) Division suffered a three and one-half months strike which ended early in November. This event, coming in a year when demand for woodlands equipment was depressed and the demand for highway trailers low, severely affected sales and profits. However, substantial orders for rapid transit cars for Toronto Transit Commission and the Port Authority Trans-Hudson, U.S.A., are on hand at present and the outlook for woodlands equipment and highway trailer business is expected to improve in 1971. Allegations of "dumping" concerning the U.S. transit car order are considered to be unsound.

Canadian Car (Pacific) Division had another satisfactory year.

Canadian Steel Foundries Division had a year of relatively high output but it has only been in recent months that the adverse forces of cost escalation and selling price resistance have begun to abate. Results have been unsatisfactory

and, to remedy this, more emphasis is being placed on securing orders for large industrial castings for which the Division has considerable resources of skill and capacity.

This year Hawker Industries Limited (99%-owned) and its subsidiaries had much improved results.

The Canadian Bridge Division however was not a contributor to this improvement and steps were taken early in 1970 to curtail unprofitable lines of structural steel fabrication. The Division is concentrating on products such as masts and towers for the electrical and electronic industries and showed a favourable trend in the latter part of the year.

Trenton Works Division had a successful year of operations. Railway axle production reached the highest level for many years and over 2,000 units of rolling stock were delivered to customers. Much of the railcar production volume stemmed from the demand for cars to move coal from pits in Western Canada to seaboard. A good level of work was also maintained on the tank car production line. The order book ensures a reasonable level of activity for the first few months of 1971 although if this is to continue further orders must be secured at an early date.

As mentioned earlier, Halifax Shipyards has suffered substantial losses on the two offshore drilling rigs delivered in 1970. The improved construction performance on the second rig and experience gained has, however, resulted in acceptance of an order for a third such rig for delivery in 1972 at an improved price. This, together with other work underway, ensures a year of full activity at the yards.

Dosco Overseas Engineering Limited achieved record results in 1970 following growing demand for its successful coal mining equipment. Initial deliveries were made of two new machines introduced in 1970. Acquisition of Hollybank Engineering Company Limited, referred to earlier, will broaden the product range to include mine arches and roof supports of several types for which there is a steady demand.

After a reasonably satisfactory year in 1969, Orenda Limited (60%-owned) encountered a severe drop in volume and profitability. The J.85 engine program was nearing completion by year end and engine overhaul and spare parts requirements of the Canadian Government were halved. Additionally there was a decline in volume of demand for industrial gas turbines and sub-contract work for the Pratt & Whitney Division of United Aircraft Corporation, Hartford, Conn. A useful volume of work on the RB.211 engine was undertaken for 1971 and beyond for Rolls-Royce and the apparent collapse of this program, if confirmed, will result in the loss of a significant proportion of the anticipated 1971 turnover. Even before this event a decision had been taken to consolidate operations within a reduced area of the plant, particularly in the absence of a Canadian defence aero-engine program.

In the course of 1970 the tank car fleet capacity of Canadian General Transit Company, Limited (55%-owned) increased by 10% as a result of net fleet additions. Earnings continued to be satisfactory.

Some progress was made in 1970 toward eventual settlement of the compensation for the expropriation in 1968 of collieries previously owned by Hawker Industries Limited and expropriated collieries of Dominion Coal Company, Limited in which it has a shareholding. An amount of compensation has been offered in court proceedings but negotiations are continuing to obtain an improvement.

The Company enters 1971 with a lower order book than at the same time in 1970 although some sectors have good forward workloads. All face rising costs on a broad front and exports will become increasingly difficult to secure due to the strength of our currency. Nevertheless some improvement in results is looked for in 1971.

Directors

It is with deep regret that the directors record the death on March 8, 1971 of Mr. Gordon R. McGregor who became a director in 1969 and served the Company in that capacity and as Chairman of Orenda Limited until his death.

After serving 13 years as a director and having attained the age limit prescribed by the By-laws of the Company, Mr. W.P. Scott retired from the Board in May 1970. The directors wish to express their appreciation for his wise counsel and for his keen interest in the welfare of the Company. Mr. J.H. Ready was elected a director to fill the vacancy on the Board as a result of Mr. Scott's retirement.

Submitted on behalf of the Board

A. A. HALL
R. S. FAULKNER
Toronto, Ontario,
March 19, 1971.

Comments on Operations

HAWKER SIDDELEY CANADA LTD.

Canadian Car Division

Depressed market conditions for woodlands equipment and trailer products, and a 3½-month strike at the Thunder Bay plant which started in July, seriously affected the Division's operating results in 1970.

High interest rates made it increasingly difficult for domestic and United States customers to finance the purchase of new woodlands equipment. This condition quickly offset the advantage of a good market carry-over from 1969. After mid-year, the increased value of the Canadian dollar had a severe impact on the pulp and paper industry in Canada and further affected customer demands.

However, overseas markets for woodlands equipment remained firm and continue to offer good prospects.

Sales of highway trailers were also lower due to depressed market conditions and the effect of the strike on production. Engineering of an improved van design was completed and production started at the end of the year.

Production started also on a Toronto Transit Commission order for 76 long, lightweight cars.

An order was obtained for 46 rapid transit cars from the Port Authority Trans-Hudson of New York. When delivered, the cars will operate between New Jersey and lower Manhattan.

The two orders will occupy the plant's passenger rail car building facilities until early 1972.

A new management group was installed at the beginning of 1971 following a major reorganization of the Division's senior staff.

Canadian Car (Pacific) Division

Despite depressed conditions in the forest products industries the Division had a good year of sales for its sawmill equipment.

Offshore markets were further expanded by the first sale of a Chip-N-Saw machine to Sweden and the export of an edge chipper to New Zealand.

To improve existing product lines and develop new equipment and processes, the Division established a research and development facility and initial operation has been successful. The facility is aided by an industrial research assistance program with the National Research Council of Canada. Additional assistance has been obtained through PAIT (Program for the Advancement of Industrial Technology) for the development of a Vee-head canter.

Several new products were developed during the year including a twin band resaw, a vertical single arbor edger, and machine control devices.

Canadian Steel Foundries Division

The delivery of several major orders for castings was deferred by customers for various reasons in the first part of the year resulting in temporary underutilisation of production capacity. The situation reversed in later months when order bookings overloaded casting facilities and some orders were rescheduled for 1971 production.

The total tonnage of castings poured was approximately the same as in 1969.

The foundry's ability to meet the exacting production and test requirements for castings used in nuclear power reactors gave rise to further business in this highly specialized field. The first large stainless steel casting in this category was shipped during the year.

Production of small castings was brought to an end so that the plant space involved could be added to that used for large castings.

The Division's facilities for machining castings prior to non-destructive testing were expanded by the addition of a vertical boring mill. This equipment will speed deliveries and reduce costs previously incurred by having these machining operations carried out by sub-contractors.

Requirements for railway castings are expected to decrease in 1971 but additional orders anticipated for large industrial castings should partly offset this decline.

HAWKER INDUSTRIES LIMITED (Approx. 99%-owned)

Canadian Bridge Division

Markets for both fabricated structural steel and electric transmission towers continued to be highly competitive throughout 1970. Selling prices allowed very low profit margins.

As a result, steps were taken to concentrate on serving the market for masts and towers and to curtail or eliminate heavy structural steel products.

Total tower production was slightly below the 1969 level. However, substantial sales were made to a United States power company and an order was received for hydro towers for a West African country which will be completed in 1971.

The Division received its first contract for the supply of hydro poles designed specifically for built-up areas where aesthetic value is important.

A strike by plant steelworkers, which started in mid-December, was still in effect at year end.

Halifax Shipyards Division

The main event of 1970 operations at the Shipyard was the completion in April and December of two semi-submersible, offshore drilling vessels. These giant vessels displacing some 19,000 tons will be engaged initially in exploration work off the

coasts of Nova Scotia and Newfoundland.

A contract for the construction of a third unit was received early in 1971 and is scheduled for completion in 1972.

The Division also completed the fabrication of a module-style hull and other components for a rail car ferry which will operate on Lake Titicaca high in the Andes mountains of Peru. Transported from Halifax via ship to seaport in Peru, modules will then be taken by rail to Puno on Lake Titicaca where the vessel will be assembled and launched.

Work started in the conversion and refit of HMCS Restigouche and HMCS Kootenay but, in general, ship repairs were less than expected for the second half of 1970. The activities of the Dartmouth yard, which deals with small ships, were curtailed during the second half of the year as a result of the derailment of their largest slipway which caused extensive damage.

Government decisions to provide subsidies on the construction of foreign vessels and to provide financing is expected to stimulate new ship construction.

Trenton Works Division

The Division had a particularly successful year in which sales volume was almost 45% higher than in 1969.

Several factors contributed to the increase including a large carry-over of rail car orders from the previous year. In addition, railroads added to their normal requirements by ordering cars to move coal for export from western coalfields to Pacific coast ports. Rail tank car business which was slow in the first six months of 1970 showed considerable improvement in the second half of the year.

Total deliveries of railroad rolling stock reached 2032 units, the largest single run being 1000 covered hopper cars for Canadian National Railways. A number of aluminum covered hopper cars of an experimental design were produced for CNR.

Railway axle production reached the highest level in many years and a significant increase in heavy forging and machining work was experienced.

The modernization program is progressing and the first phase is now nearing completion.

Orders carried forward into 1971 will maintain a fairly high production level in the early part of the year but new bookings for onward production have been disappointing to date.

Dosco Overseas Engineering Limited

Domestic sales of mining equipment manufactured by this United Kingdom subsidiary increased significantly over the previous year.

Production increases were greatest for the Dint Header, a machine which re-cuts the surface of underground roadways, and Tracked Ripping Machines, which were introduced towards the end of 1969.

Export of new machines did not reach expectations but the sale of spare parts and assemblies to overseas customers rose appreciably.

The company introduced two new machines in 1970, namely the Twin Boom Miner, and the Roadheader Mk. 2A. Both machines are considerably larger and have improved capability. Reliability trials have been most satisfactory and enquiries for these new models are most encouraging.

This company acquired Hollybank Engineering Company Limited which brings with it a complementary range of products of considerable potential.

Interest in Collieries

As reported in previous years, the Company acquired from Dosco the assets of Old Sydney Collieries and of Acadia Coal together with 26,521 preferred shares of Dominion Coal Company, Limited (Domco) and all the common shares of that company. The assets and business of Acadia Coal were sold in 1968. On March 30, 1968, Cape Breton Development Corporation (Devco), a Crown corporation, expropriated virtually all of the operating assets of Old Sydney Collieries and those of Domco and its subsidiary companies.

Following years of sporadic negotiations, which commenced prior to the expropriation proceedings, an amount offered by Devco in court proceedings relating to the expropriated assets was placed before the shareholders of Domco at a Special General Meeting held on September 24, 1970. The Domco shareholders directed that settlement of all outstanding matters could be agreed if an improvement of $1,000,000 to Devco's offer could be obtained. Negotiations are continuing under this mandate. It is not possible to predict when negotiations will be completed.

ORENDA LIMITED (60%-owned)

A marked decrease in both domestic and export sales combined to reduce the company's total sales volume by 30% compared with 1969.

Two main factors affected domestic sales. Shipments of J.85 jet aircraft engines fell as the manufacturing program neared completion at the end of 1970 and engine overhaul, repair and spares business for the Canadian Government decreased by 55%.

Sales of industrial gas turbines also declined due partly to the cyclical nature of some sectors of the market. For example, natural gas pipeline construction was at a relatively low level in 1970 and demands for gas-turbine powered pumping units were light.

The volume of business derived from the manufacture of jet engine components for the Pratt & Whitney Division of United Aircraft Corporation, East Hartford, Connecticut, U.S.A. (40% shareholder) was lower than in the previous year. The resulting drop in this sector of the company's export sales was offset to some degree by subcontract work obtained from two other major engine manufacturers. Of particular significance was work from the United Kingdom involving the manufacture of large components for Rolls-Royce. The announced failure of Rolls-Royce in February 1971 may result in a loss of business which will be difficult to replace.

Completion of the J.85 engine manufacturing program and reduced levels of work in other areas previously mentioned have resulted in surplus space at the Orenda plant. No new production requirements which would utilize all available space are expected to arise. As a result, the decision was made to consolidate operations within a much reduced area of the plant. The plan will be fully implemented by mid-1971.

CANADIAN GENERAL TRANSIT COMPANY, LIMITED (55%-owned)

Although operations produced a satisfactory increase in revenue for the year, earnings were marginally below those for 1969. The slight decrease was due mainly to substantially higher repair and maintenance charges on the company's rail car fleet and a significant rise in the cost of financing new equipment added during the year.

New cars were added to the fleet and older, rivetted tank cars were retired in approximately the same numbers. As a result the total number of units was virtually unchanged from the 1969 level. However, because the new cars were of larger sizes than those retired, overall fleet carrying capacity was increased by some 10%.

CANADIAN STEEL WHEEL LIMITED (50%-owned)

Iron and Steel Investments Limited, a wholly-owned subsidiary of British Steel Corporation is the other 50% shareholder of this company.

Continuing strong demands for railway wheels and steel ingots resulted in a satisfactory year's operations with sales reaching a record high level.

The outlook for 1971 appears encouraging and a further expansion in sales is expected.

Consolidated Statement of Income FOR THE YEAR ENDED DECEMBER 31, 1970

	1970	1969
Consolidated net sales	$182,483,659	$188,060,908
Income from operations before the items shown below	$ 16,767,220	$ 16,555,833
Income from investments (Note 3)	706,479	688,297
	17,473,699	17,244,130
Deduct:		
Interest on bank advances	1,368,694	1,825,310
Interest and discount on long term debt	2,745,067	2,425,337
Provision for depreciation	6,847,565	6,652,236
	10,961,326	10,902,883
Income from operations before income taxes	6,512,373	6,341,247
Provision for income taxes (Note 9)	3,063,000	3,741,000
	3,449,373	2,600,247
Interest of minority shareholders in income of subsidiaries	960,055	1,367,734
	2,489,318	1,232,513
Provision for loss on contracts to supply parts for Rolls-Royce RB211 engine, less income taxes of $293,700 and minority interest of $102,520	153,780	—
Income before extraordinary item	2,335,538	1,232,513
Exchange loss on net assets in foreign currencies at May 31, 1970 resulting from freeing of the Canadian dollar, less income taxes of $204,000 and minority interests of $28,011	500,433	—
Net income for the year	$ 1,835,105	$ 1,232,513
Earnings per share after preferred dividends (Note 10):		
Before extraordinary item	19¢	5¢
After extraordinary item	13¢	5¢

See accompanying notes to consolidated financial statements

Consolidated Statement of Retained Earnings FOR THE YEAR ENDED DECEMBER 31, 1970

	1970	1969
Retained earnings (deficit) at beginning of year	$3,969,560	$(26,225,529)
Application of reduction in common share capital	—	29,163,831
Equity in undistributed net earnings of associated company at beginning of the year (Note 3)	23,485	—
	3,993,045	2,938,302
Net income for the year	1,835,105	1,232,513
	5,828,150	4,170,815
Add (deduct):		
Provision for special costs and losses in a subsidiary no longer required, after minority interest of $3,842 (Note 8)	1,364,681	—
Goodwill written off on acquisition of a subsidiary on December 30, 1970, after minority interest of $811	(288,052)	—
	1,076,629	—
	6,904,779	4,170,815
Dividends on preferred shares (Note 10)	1,006,268	201,255
Retained earnings at end of the year	$5,898,511	$ 3,969,560

See accompanying notes to consolidated financial statements

Consolidated Balance Sheet—DECEMBER 31, 1970

ASSETS	1970	1969
Current Assets:		
Cash	$ 800,715	$ 759,142
Short term investments, at cost (approximately market value)	917,427	1,715,916
Accounts receivable	36,302,172	41,735,739
Inventories at lower of cost and estimated realizable value, less progress payments	30,961,643	37,007,677
Prepaid expenses	878,728	552,517
	69,860,685	81,770,991
Investments and Other Assets:		
Coal mining interests (Note 2)	1,872,718	1,872,718
Investment in associated company (Note 3)	4,359,041	4,220,000
Notes due from Sidbec (Note 4)	5,000,000	5,000,000
Debentures of Dominion Steel and Coal Corporation, Limited, at cost	3,523,513	3,566,450
Mortgage and other investments	504,763	537,666
	15,260,035	15,196,834
Fixed Assets, at cost:		
Land, buildings, machinery and equipment	197,779,668	187,998,229
Less—Accumulated depreciation	91,916,169	89,533,035
	105,863,499	98,465,194
Unamortized Discount on Long Term Debt	234,357	203,381
	$191,218,576	$195,636,400

See accompanying notes to consolidated financial statements.

LIABILITIES	1970	1969
Current Liabilities:		
Bank advances (Note 5)	$ 9,378,868	$ 16,284,011
Accounts payable and accrued liabilities	21,139,972	24,858,740
Income and other taxes payable	2,767,615	2,375,731
Long term debt due within one year (Note 6)	2,307,702	2,055,429
Due to affiliated companies	2,843,890	1,730,981
	38,438,047	47,304,892
Long Term Debt (Note 6)	40,655,048	37,510,477
Provisions:		
Unfunded pensions (Note 7)	7,691,913	8,138,006
Special costs and losses (Note 8)	2,625,000	4,363,341
	10,316,913	12,501,347
Deferred Income Taxes	8,972,102	7,699,682
Interest of Minority Shareholders in Subsidiaries	13,826,268	13,538,755
Shareholders' Equity:		
Preferred and common shares (Note 10)	68,279,748	68,279,748
Reserve for contingencies	4,831,939	4,831,939
Retained earnings	5,898,511	3,969,560
	79,010,198	77,081,247
Approved on behalf of the Board: A. A. Hall, Director R. S. Faulkner, Director		
	$191,218,576	$195,636,400

Consolidated Statement of Source and Application of Working Capital

FOR THE YEAR ENDED DECEMBER 31, 1970

	1970	1969
Source:		
Net income for the year	$ 1,835,105	$ 1,232,513
Non-cash items included in determination of net income—		
Depreciation	6,847,565	6,652,236
Amortization of discount on long term debt	19,024	16,596
Deferred income taxes	1,272,420	2,464,291
Income of subsidiaries attributable to minority interests	829,524	1,367,734
Equity in undistributed net earnings of associated company (Note 3)	(115,556)	—
Funds provided from operations	10,688,082	11,733,370
Proceeds from issue of long term debt	5,450,000	5,328,485
Sale of leases	—	1,308,282
Fixed asset disposals	389,345	1,068,559
Shares issued by subsidiary to minority shareholders	180,000	—
Decrease in investment in associated company	—	75,000
Other items	75,840	161,377
	16,783,267	19,675,073
Application:		
Additions to fixed assets	14,360,010	15,151,032
Reduction in long term debt	2,355,429	2,055,429
Reduction in provision for unfunded pensions (Note 7)	446,093	284,173
Dividends paid—		
To preferred shareholders of Hawker Siddeley Canada Ltd.	1,006,268	201,255
To minority shareholders of subsidiaries	481,770	721,770
Purchase of shares in partly owned subsidiary	243,272	55,532
Reduction in working capital on purchase of subsidiary	564,068	—
Charges to provision for special costs and losses (Note 8)	369,818	970,208
	19,826,728	19,439,399
(Decrease) increase in working capital	(3,043,461)	235,674
Working capital at beginning of year	34,466,099	34,230,425
Working capital at end of year	$31,422,638	$34,466,099

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements FOR THE YEAR ENDED DECEMBER 31, 1970

1. Principles of Consolidation:

The consolidated financial statements include the accounts of all subsidiary companies except Dominion Coal Company, Limited (Domco), a partly-owned subsidiary of Hawker Industries Limited (Industries). The accounts of Domco are not consolidated because that company ceased operations March 30, 1968 on the expropriation of substantially all of its assets (see Note 2).

2. Coal Mining Interests:

	1970	1969
Shares in subsidiary not consolidated, at cost	$ 331,514	$ 331,514
Comprising all the issued common shares and 26,521 preferred shares of Domco		
Coal mining inventories and properties	1,541,204	1,541,204
	$1,872,718	$1,872,718

On March 30, 1968 the Cape Breton Development Corporation expropriated substantially all of the assets of Domco and the major part of the coal mining inventories and properties. The compensation to be paid has yet to be established but it is not expected that losses will be incurred.

3. Investment in Associated Company

In 1970 the investment in Canadian Steel Wheel Limited (50%-owned) has been stated at cost plus the Company's equity of $139,041 in its undistributed earnings in accordance with the trend toward this practice where the shareholding is significant. In prior years the investment was carried at cost and the earnings of Canadian Steel Wheel Limited were taken up only to the extent of dividends received. Resulting from this change, income from investments and net income for 1970 have been increased by $115,556 and retained earnings at the beginning of 1970 increased by $23,485.

4. Notes Due from Sidbec:

These are non-interest bearing notes due January 31, 1974 received from Sidbec, a corporation owned by the Province of Quebec, on the sale by the Company in 1968 of its shareholdings in Dominion Steel and Coal Corporation, Limited (Dosco).

5. Bank Advances:

Bank advances at December 31, 1970 include bank advances to Industries of $1,736,305 secured by a general assignment of its accounts receivable and an assignment of its inventories.

6. Long Term Debt:

	1970	1969
Canadian General Transit Company, Limited (55%-owned)–		
Equipment Trust Certificates 4%–6¾% due 1971–1980	$ 2,468,000	$ 2,780,000
First Mortgage Equipment Notes 6%–7½% due 1971–1987	3,310,000	3,525,000
8½% due $150,000 in 1971 and $2,550,000 in 1972	2,700,000	2,850,000
10¼% due $200,000 in 1971–1975, $165,000 in 1976–1989 and $190,000 in 1990	3,500,000	—
First Mortgage Sinking Fund Equipment Notes 6¾%–10% due 1971–1990	6,000,000	4,250,000
5%–9% due 1971–1989 (U.S. $17,525,000)	18,784,750	19,960,906
	36,762,750	33,365,906
Less–Due within one year included in current liabilities	2,307,702	2,055,429
	34,455,048	31,310,477
Orenda Limited (60%-owned)–		
8% notes due December 1, 1975	15,600,000	15,600,000
Less–Payable to Hawker Siddeley Canada Ltd. and eliminated on consolidation	9,400,000	9,400,000
	6,200,000	6,200,000
	$40,655,048	$37,510,477

For Canadian General Transit Company, Limited and Orenda Limited the combined working capital and the combined investment in fixed assets, after deducting accumulated depreciation, amounted to $10,710,445 and $79,904,592 respectively, at December 31, 1970.

7. Pensions:
The present value of past service pension obligations is approximately $10,100,000. Settlement of these obligations will result in annual charges to the provision for unfunded pensions set aside for that purpose and in charges to operations varying between $350,000 to $550,000 annually for the next twenty years. During 1970 $446,093 was charged to the provision for unfunded pensions and $374,972 was charged to operations in respect of past service pension obligations.

8. Provision for Special Costs and Losses:
During the year ended December 31, 1970 an amount of $369,818 was charged to the provision for special costs and losses for payments made in 1970, and for payments agreed to be made in 1971 classified as accounts payable, in respect of the obligations under long term commodity supply contracts assumed by Industries on the sale by the Company in 1968 of its shareholdings in Dosco. In the opinion of management an amount of $2,625,000 is a reasonable estimate at this time of the additional special costs and losses which may be incurred on the remaining contractual obligations. Accordingly, an amount of $1,364,681 (after minority interest of $3,842) has been transferred from the provision to retained earnings.

9. Provision for Income Taxes:
As at December 31, 1970 the Company and its subsidiaries had income tax benefits of approximately $2,850,000 available for reduction of future taxation. By reason of not claiming capital cost allowances in loss years, most of these benefits will derive from additional allowances which may be claimed in future years.

Losses of a subsidiary company in 1969 could not be applied in determining the provision for income taxes.

10. Preferred and Common Shares:

Preferred shares of the par value of $100 each issuable in series–	
Authorized–250,000 shares	
Issued–240,000 5¾% cumulative redeemable shares	
Outstanding–140,000 shares	$14,000,000
Common shares without nominal or par value–	
Authorized–10,000,000 shares	
Issued–8,117,341 shares	54,279,748
	$68,279,748

During 1970 dividends on the preferred shares were paid in respect of five quarters ended July 2, 1969; on March 16, 1971 dividends on the preferred shares were declared payable March 30, 1971 in respect of the three quarters ended April 2, 1970; dividends are in arrears from that date in the amount of $805,000. The preferred shares are redeemable at the option of the Company at $105 per share.

Options to subscribe for unissued common shares were outstanding at December 31, 1970 for 25,000 shares at $3.35 per share expiring 1979 and for 139,250 shares at prices from $6.00 to $7.50 per share expiring 1974 to 1976. Of the foregoing, 71,000 shares are optioned to officers and directors. None of these shares are optioned to directors who are not officers.

11. Contingent Liabilities:
Customers' conditional sales contracts and equipment leases of approximately $3,500,000 are under discount with finance companies.

12. Remuneration of Directors and Officers:
For the year 1970 the remuneration of four directors and a past director amounted to $4,541 (1969—$4,565) and of ten officers and a past officer amounted to $376,852 (1969—$372,687). Nine directors received no remuneration as directors. Four officers are also directors.

To the Shareholders of Hawker Siddeley Canada Ltd.:

We have examined the consolidated balance sheet of Hawker Siddeley Canada Ltd. and consolidated subsidiaries as at December 31, 1970 and the consolidated statements of income and retained earnings and source and application of working capital for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1970 and the results of their operations and the source and application of their working capital for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year except for the change, which we approve, in the basis of accounting for the investment in an associated company as explained in Note 3 to the consolidated financial statements.

Price Waterhouse & Co.
Chartered Accountants

Toronto, Ontario, March 19, 1971

Steel Fabricating and Equipment
Castings and forgings
Cranes
"Dosco Dint Header"
"Dosco Roadway Cutter-Loader"
Mining equipment
Offshore drilling vessels
Pollution control equipment
Railway axles
Steel ingots
Steel wheels
Tanks, storage and pressure
Transmission towers and poles

Transportation
Containers, container chassis
Highway trailers
Industrial and mine cars
Marine forgings and metalworking
Naval and merchant shipbuilding and repair
Railway rolling stock
Railway tank and hopper car leasing
Rapid transit passenger cars (subway, commuter and mainline)
Storage terminals, liquids

Power
Aircraft gas turbines and components
Components for nuclear power applications
Computer services
Engineering, design, laboratory testing and graphics services
Industrial gas turbines for electrical power generation, liquid and gas pumping, heating and air conditioning

Woodland Industries Equipment
"Chip-N-Saw" machines
"Pulpwood Porter" (rubber-tired transporter)
"Tree Farmer" (rubber-tired skidder)
"Tree Processor" (slasher and de-limber)
"Tree Clipper" (shear and piler)
Logging equipment
Sawmill and chipping equipment

Divisions
Canadian Car Division, Thunder Bay, Ont.
Canadian Car (Pacific) Division, Vancouver, B.C.
Canadian Steel Foundries Division, Montreal, Que.

Subsidiaries
Can-Car Inc., Atlanta, Ga., U.S.A. (100%)*
Hawker Industries Limited, Toronto, Ont. (99%)*
- Canadian Bridge Division, Windsor, Ont.
- Dosco Overseas Engineering Limited, Aylesbury, England
- Halifax Shipyards Division, Halifax, N.S.
- Hollybank Engineering Limited, Aylesbury, England
- Trenton Works Division, Trenton, N.S.

Orenda Limited, Malton, Ont. (60%)*
Orenda Engines Inc., Buffalo, N.Y., U.S.A. (60%)*
Canadian General Transit Company, Limited, Montreal, Que., Toronto, Ont., Moose Jaw, Sask., Red Deer, Alta. (55%)*

Associate Company
Canadian Steel Wheel Limited, Montreal, Que. (50%)*

**percentage ownership by Hawker Siddeley Canada Ltd.*

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Hawker Siddeley Canada LTD.

Semi-annual report
for period ending June 30, 1970

To the Shareholders:

Submitted herewith is the unaudited interim consolidated statement of income and consolidated statement of source and application of working capital for the first half of 1970 compared with the same period in 1969.

Net income earned of $808,529 on sales of $97,336,997 reflects the results of a sales increase of $6.1 million over the current first quarter when a net income of $318,885 on a sales volume of $45,619,977 was reported.

Income from operations of $2,749,973 before income taxes is significantly lower than the figure for the corresponding period last year. A major reason for this reduction is that provision for further loss on the drilling rig construction program at Halifax Shipyards Division is being dealt with quarterly on a pro rata basis whereas in 1969 the burden of the loss fell mainly in the second half of that year. Additionally profits of Orenda Limited (60%-owned subsidiary) are down as the J-85 jet engine program nears completion and demands for industrial gas turbines continue to be slow.

High volume production is continuing at the rail car plant at Trenton, N.S., Canadian Steel Foundries in Montreal and Canadian Car (Pacific), Vancouver. Production is down at Canadian Bridge, Windsor, and Can-Car, Thunder Bay, and no immediate relief is seen in light of the continuing tight economic situation. Leasing operations of Canadian General Transit Co. Ltd. (55%-owned subsidiary) and production at the U.K. based Dosco Overseas Engineering Limited remain satisfactory.

Recent action of the Government of Canada to free the Canadian dollar from its fixed exchange rate and the subsequent rise in value of the Canadian dollar has adversely affected the net income in the current half year. It is also anticipated that the Company will encounter a more competitive situation in the export market as a result.

R. S. FAULKNER
President and Chief Executive Officer
Toronto, Ontario
August 13, 1970

Consolidated statement of income

	First Half 1970	First Half 1969
Consolidated net sales	$97,336,997	$82,895,951
Income from operations before the items shown below	$ 8,064,496	$ 8,884,265
Income from investments	276,162	287,302
	8,340,658	9,171,567
Deduct:		
Interest on bank advances	773,818	735,141
Interest and discount on long term debt	1,327,283	1,128,009
Provision for depreciation	3,489,584	3,268,032
	5,590,685	5,131,182
Income from operations before income taxes	2,749,973	4,040,385
Income taxes	1,415,000	1,907,000
	1,334,973	2,133,385
Interest of minority shareholders in net income of subsidiaries	526,444	717,937
Net income for the period	$ 808,529	$ 1,415,448

Consolidated statement of source and application of working capital

	First Half 1970	First Half 1969
Source:		
Net income for the period	$ 808,529	$ 1,415,448
Non-cash items included in determination of net income —		
Depreciation	3,489,584	3,268,032
Amortization of discount on long term debt	9,283	8,214
Deferred income taxes	790,000	1,142,792
Income of subsidiaries attributable to minority shareholders	526,444	717,937
Funds provided from operations	5,623,840	6,552,423
Proceeds from issue of long term debt	1,985,000	—
Fixed asset disposals	147,328	635,076
Decrease in investment in associated company	—	75,000
Other items	15,251	7,482
	7,771,419	7,269,981
Application:		
Additions to fixed assets	4,822,174	6,037,525
Reduction in long term debt	629,141	529,141
Charges to provision for unfunded pensions	144,996	145,007
Dividends paid —		
To preferred shareholders of Hawker Siddeley Canada Ltd.	402,510	—
To minority shareholders of subsidiaries	227,250	—
Purchase of shares in partly owned subsidiary	1,025	37,129
Charges to provision for special costs and losses	323,555	169,167
	6,550,651	6,917,969
Increase in working capital	1,220,768	352,012
Working capital at the beginning of the period	34,466,099	34,230,425
	$35,686,867	$34,582,437

Note: Interim statements are subject to audit and year-end adjustments.

Hawker Siddeley Canada LTD.
7 King Street East, Toronto 1, Ontario

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